



## Office of City Auditor Memorandum

**Date:** January 22, 2004

**To:** Ken Nakatsu, Director, Department of Executive Administration

**From:** Scottie Nix, Assistant City Auditor for Internal Controls *Scottie Nix*

**Subject:** Review of Seattle Animal Control Cash Handling Procedures

We want to thank you for the opportunity to work with you and your staff to improve the Animal Control program's cash handling operations. We appreciated the comments you provided on a preliminary draft of this memorandum and have incorporated your responses into this memorandum. We also appreciate all the actions you have taken to improve the controls over your cash handling operations. We look forward to working with you in the future.

Since 1997, the Animal Control program has made significant progress in improving the internal controls and reducing the risks in its cash handling system. These improvements are helping to provide Animal Control with a higher degree of assurance that its staff regularly collects, deposits and accounts for revenues. For example, Animal Control has implemented the Computerized Animal Tracking System (CATS), segregated functions as much as staffing levels will allow, and performs daily reconciliations of the deposits made to the City Treasury against the CATS system totals. There are still a few cash handling areas that we believe require further fine-tuning, which are identified later in this memorandum.

**Background and Purpose:** The Department of Executive Administration's (DEA) Animal Control Program operates cash receiving locations throughout the City of Seattle, including City Neighborhood Service Centers which issue pet licenses for pets of City residents.

As part of its ongoing monitoring of City cash handling sites, the Office of City Auditor conducted this audit to evaluate the effectiveness of internal controls for cash handling operations at Animal Control's Spay & Neuter Clinic and Pet Licensing counter.

**Scope:** We conducted the audit planning and fieldwork during July and August 2003. We asked Animal Control officials to answer 49 questions contained in our cash-handling questionnaire covering the following internal control objectives:

- Physical safekeeping of cash and checks
- Segregation of duties
- Cash receipting
- Cash depositing
- Monitoring

We reviewed Animal Control's responses to our questionnaire, examined relevant cash handling documents, and observed cash handling operations at both sites.

We conducted this audit in accordance with the Standards for the Professional Practice of Internal Auditing.

**Results:** We determined that the majority of Animal Control's cash handling policies and procedures at the two sites provided a reasonable level of control. We identified six controls that should be improved as soon as possible and have provided specific recommendations on how they could be strengthened. We also found 10 other items of lower risk, which could be improved or should be monitored by Animal Control officials. Details on our results are provided in the matrix below.

Using the format of our cash-handling questionnaire, we assigned color-coded ratings to Animal Control's cash handling controls. The color rating codes are as follow:

- **Green Rating** = The Office of City Auditor (OCA) believes that Animal Control management has reduced risk to an acceptable level.
- **Yellow Rating** = OCA believes the risk, while not unacceptable, could be further reduced or would benefit from additional monitoring by management.
- **Red Rating** = OCA believes that an acceptable level of risk has not been achieved. Management needs to address this risk and reduce it.

| INTERNAL CONTROL<br>OBJECTIVE QUESTION   | OVERALL<br>ANSWER | OCA<br>RATING | COMMENTS   |
|--|-------------------|---------------|--|
| • <b>Physical Safekeeping of Cash and Checks</b>   |                   |               |  |
| 1. Are adequate physical facilities provided for safeguarding cash?  | Yes               | Green         | Safe with a key lock. Locking cash drawers.  |
| 2. If secure areas are provided, such as safe or locked boxes, are the safe combinations and keys restricted to a minimum number of employees? | Yes               | Green         | Access to the office area is restricted to employees and volunteers; access to safe keys and locked boxes is restricted to employees only.   |
| 3. Are lists maintained by senior individuals identifying who knows the safe combinations and has keys to locked boxes and areas?              | No                | Yellow        | Access is limited to individuals known to managers.<br><br><b>We recommend</b> that Animal Control management maintain a list of who has keys to the lock boxes and safes.<br><br><b>DEA response:</b> The Animal Control manager has established and plans to maintain, a list of those employees who have keys to the safe and lock boxes. |
| 4. Are safes and locked areas locked at all times when unattended?   | Yes               | Green         |  |
| 5. Are safe combinations and keys changed at the transfer or termination of key employees, or are they changed for other security reasons?     | Yes               | Green         |  |

| INTERNAL CONTROL<br>OBJECTIVE QUESTION  | OVERALL<br>ANSWER | OCA<br>RATING | COMMENTS  |
|---|-------------------|---------------|---|
| 6. Are only authorized individuals allowed access to cash handling areas?   | Yes               | Yellow        | Access is granted to a large number of staff and volunteers. The more people who have access to cash handling areas, the higher the risk to the organization. Management is aware of the risk and has accepted it. No recommendation at this time.<br><br><b>DEA response:</b> Completely separating the cash handling areas would require office remodeling at both the Pet Licensing and Municipal Spay and Neuter Clinic.  |
| 7. Does the cashier have access to a security alarm or buzzer that would alert management or security personnel of a robbery or other type of threatening activities? | Yes               | Green         |   |
| 8. Has the Seattle Police Department or professional security experts evaluated your premises and procedures?   | Yes               | Green         |   |
| 9. Has fraud, robbery or other type of incidents occurred in the cash handling area?  | Yes               | Yellow        | Previous losses can increase the risk of loss in the current period. In 1994 approximately \$150,000 was stolen and in 1997 approximately \$500 was stolen from the Animal Control program.<br><br><b>DEA response:</b> After the two thefts, we implemented additional internal controls to prevent similar fraud from reoccurring. There have been no fraud incidents since 1997.   |
| 10. Have all the cashiers completed the Treasury Office's cash handling training?   | Yes               | Green         | Cash handling staff are provided with a copy of the Treasury Office's Cash Handling Training Manual, which has been incorporated in Animal Control's policy and procedures.<br><br><b>We recommend</b> that Animal Control management ensure that their staff attend Treasury's next cash handling training course.<br><br><b>DEA response:</b> Animal Control cash handling staff received cash handling training on November 13, 2003. The Treasury Services Division's cash handling training manual has been incorporated into Animal Control's cash handling procedures, which are provided to all Animal Control cash handling staff.<br><br><b>Auditor's response:</b> After verifying that Animal Control staff had attended the training, we changed this rating from yellow to green. |
| • <b>Segregation of Duties</b>  |                   |               |   |
| 11. Are all bank statements, deposit slips, etc. sent to someone other than the person making the deposit?  | Yes               | Green         | Deposit slips are sent to Treasury.   |
| 12. Are bank statements reconciled on a monthly basis?  | Yes               | Green         | Deposit Slips are reconciled with the Trust Collection receipts received from Treasury.   |
| 13. Are the individuals responsible for the cash receiving function prohibited from signing checks or reconciling the bank statement?                                 | Yes               | Green         | Checks and bank reconciliations are performed at the City Treasury Office.  |

| INTERNAL CONTROL<br>OBJECTIVE QUESTION   | OVERALL<br>ANSWER        | OCA<br>RATING                          | COMMENTS   |
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| 14. Are there individuals whose official duties make them responsible for the oversight of cash deposits, transmittal of deposits to couriers for delivery to the City Treasury, and receipt of information from Treasury about prior deposits?    | Yes                      | Red                                    | <p>Due to the small number of employees at this site, complete segregation of duties is difficult to achieve. Management is aware of the risk and has worked to mitigate it by having a secondary review of all financial transactions by a supervisor or manager. No recommendation at this time.</p> <p><b>DEA response:</b> There is a secondary review of all financial transactions by a supervisor or manager.</p>   |
| 15. Does a person who does not prepare bank deposits and does not have access to accounts receivable open the mail?  | Yes                      | Yellow<br>Licensing<br>Green<br>Clinic | <p>The Animal Control office receives a large amount of mail each day. The mail is comprised of normal business correspondence and license money with pet information. Currently, the mail is stacked up, rubber banded together, and placed in the closet that holds the un-issued pet license inventory (we observed about a 5 inch stack of mail during our cash count site visit). Since the site has no mail log or strict mail handling procedures, the stack's envelopes could become lost or misplaced. Further, the cashiers are not assured that they are processing the payments in the order received (i.e., oldest to newest), which compromises the integrity of daily receipts. Eventually, the payments are entered into the system, but there is a high risk to the completeness of the entries due to the factors listed above.</p> <p><b>We recommend</b> that a higher degree of control be achieved. One method would be to have two people involved in opening the mail and creating a mail log, before the transactions are passed to cashiers for processing.</p> <p><b>DEA response:</b><br/>We have modified our procedures for opening the mail. A record ledger has been ordered to log incoming mail containing payments. Incoming mail is separated by type and mail containing checks will be handled as follows. Administrative staff will date stamp the mail received, add the number of checks, total the amount of the checks received, and endorse checks with the Wells Fargo stamp. This information will be logged in the record ledger. The mail containing checks will then be banded together along with the ticker tape of the check total and the date of the batch. Mail will then be placed in the Licensing closet until processed. Processing will be done within the 48-hour limit as resources allow. See answer to #19 also.</p> |
| 16. Are employees who collect and deposit cash prevented from recording cash receipts and preparing general ledger entries?  | No<br>before/<br>Yes now | Green                                  | Procedure designed now so that staff does not fill out General Ledger (GL) transfers. The Administrative Staff Assistant has the forms authorized by the manager before sending them to DEA Accounting.  |
| • <b>Cash Receipting</b>   |                          |  |  |
| 17. Are all receipts controlled by cash register, pre-numbered receipt slip, invoice or other equivalent means?  | Yes                      | Green                                  | CATS system  |
| 18. Do all the cash registers work properly and are they capable of generating cash register receipts and 'Z' reports?<br><br>Is the receipting process capable of generating reports or records with summary totals and amounts to reconcile too? | Yes                      | Green                                  | CATS system  |

| INTERNAL CONTROL<br>OBJECTIVE QUESTION   | OVERALL<br>ANSWER                 | OCA<br>RATING                         | COMMENTS  |
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| 19. Do cashiers record all transactions immediately upon receiving money?  | No                                | Red                                   | <p>Payments received through the mail are kept in a locked cabinet until the cashiers can post them to the cash registers.</p> <p><b>We recommend</b> that cashiers record all cash at the time of receipt.</p> <p><b>DEA response:</b><br/>The volume of checks received daily varies depending on special mailers and license campaigns that generate more payments, which usually occur three times each year. We have enlisted Animal Control administrative employees to assist with posting payments in order to prevent backlog. We have not yet identified which position in DEA would be able to assist Animal Control with other tasks.</p> |
| 20. Do the cashiers provide cash register receipts to all customers?   | Yes                               | Green                                 | Cashiers provide receipts to customers whether in person or via mail.   |
| 21. Are signs placed at the cashier's area advising the public that a receipt is required?                                 | No                                | Red                                   | <p><b>We recommend</b> that signs be placed in highly visible locations stating that the customer should receive a receipt.</p> <p><b>DEA response:</b> Signs have been placed in the cashier's area, advising the public that a receipt is required.</p>   |
| 22. Is only one cashier responsible for each cash drawer at any given time?  | No<br>Clinic;<br>Yes<br>Licensing | Red<br>Clinic -<br>Green<br>Licensing | <p>At the clinic, four people share one cash drawer.</p> <p><b>We recommend</b> that this practice be discontinued immediately, and that each cashier use separate drawers.</p> <p><b>DEA response:</b> We have ordered a new cash drawer. The person backing up the regular cashier for that particular day will use the new cash drawer.</p>  |
| 23. Are employees required to get a supervisor's approval before voiding transactions?                                     | Yes                               | Green                                 | Staff does not have the ability to void receipts.   |
| 24. Is the cashing of personal checks made payable to the City prohibited?   | Yes                               | Green                                 |   |
| 25. Are checks restrictively endorsed "City of Seattle, For Deposit Only" immediately upon receipt?                        | No                                | Red                                   | <p>Those payments received through the mail are not stamped until they are posted to the register.</p> <p><b>We recommend</b> that all checks be restrictively endorsed in a timelier manner.</p> <p><b>DEA response:</b> Seattle Animal Control has implemented a procedure to restrictively endorse all checks upon receipt through the mail. In evaluating this new procedure, we have found that it has not had a negative impact on this unit. However, at times when mail is heavier (e.g., special mailers, campaigns) the unit may require additional help in order to comply with the recommendation.</p>                                    |
| 26. Does the cash register "Z" tape summarize the number of voids, no sales, refunds and other miscellaneous transactions? | No                                | Green                                 | Not an exception. A separate report can be generated by the cash register showing all receipt numbers that indicates which receipts were for payment, voids or refunds.   |
| 27. Are cash receipts reconciled with the cash register "Z" tapes on a daily basis?  | Yes                               | Green                                 |   |
| 28. Are the cash register "Z" tapes numbered sequentially, dated and time stamped?   | Yes                               | Green                                 | CATS information is dated and time stamped, but is not numbered sequentially.   |
| 29. Are cash receipt refunds made by check/warrant to the individual making the deposit?                                   | No                                | Green                                 |   |

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|--|-------------------|---------------|---|
| 30. Do you accept credit cards at the cash-handling site?  | Yes               | Yellow        | <p><b>We recommend</b> that credit card transactions be encrypted, and that a policy for storage or destruction of the credit card forms be devised. Another option would be to use a marking pen to black out the credit card information on the records that are retained by the Animal Control program.</p> <p><b>DEA response:</b> All credit card information is stored in a secured location. When the retention period has expired for this type of financial information, an approved vendor shreds all documents. In accordance with a new State requirement, all three of the credit card machines have been modified to truncate the credit card number on the customer copy of the receipt.</p>   |
| • <b>Cash Depositing</b>   |                   |               |   |
| 31. Are cash receipts recorded promptly and deposited intact within 48 hours, as required by City policy?                    | No                | Red           | <p>Due to the amount of mail received by Animal Control, transactions are not processed and deposited in a timely manner.</p> <p><b>We recommend</b> that all daily transactions, including mailed payments, be deposited within 48 hours of the time they are received.</p> <p><b>DEA response:</b> On a daily basis, every effort will be made to record cash receipts received that day and deposit them within 48 hours as required by City policy. Currently, one Licensing staff member is working a part-time schedule until the end of 2003. We anticipate that this position will be reinstated to full-time after the first of the year, which will help increase the number of hours we designate to payment processing. See answer to #19 also.</p> |
| 32. Do you prepare deposit slips indicating the amount of funds deposited?   | Yes               | Green         | Deposits are made using the Cash Transmittal Voucher (CTV) form.  |
| 33. Do deposit slips show the amount of each check deposited?  | No                | Green         | The City Treasury office prepares deposit slips.  |
| 34. Is the make-up of the deposit (amounts of coin, cash denomination or check) clearly documented?                          | Yes               | Yellow        | <p>Although the cash composition can be obtained, we noted two incidents in July in which a cashier at a register had misclassified transactions by inputting credit card payments as checks. This was noted on the cash out form and the cashier was allowed to show they balanced for the day.</p> <p><b>We recommend</b> that when mistakes happen, they be voided and rung under the correct transaction type to protect the integrity of the cash composition ability of the CATS system.</p> <p><b>DEA response:</b> This recommendation has been implemented. Misclassified transactions are voided and re-rung under the correct transaction type.</p>  |
| 35. Are duplicate deposit slips prepared (one sent to the bank and one retained by the organization)?                        | N/A               | N/A           |   |
| 36. Do you use tamper-proof deposit bags for deposit?  | Yes               | Green         | The courier is required to sign for the deposit pick-up. These sign in logs are kept on file in the Pet Licensing office.   |
| 37. Does a person other than the cashier verify the deposit against the cash receipt?  | Yes               | Green         | There is a secondary review by a supervisor or manager.   |
| • <b>Monitoring</b>  |                   |               |   |
| 38. Are receipts accounted for and balanced to receipt records (e.g., register tapes, receipt books, etc.) on a daily basis? | Yes               | Green         |   |

| INTERNAL CONTROL<br>OBJECTIVE QUESTION  | OVERALL<br>ANSWER | OCA<br>RATING | COMMENTS  |
|---|-------------------|---------------|---|
| 39. Does management verify the cash and check amount on the deposit slips to the "Z" tapes?   | Yes               | Green         |   |
| 40. Are all overages and shortages reported to management?  | Yes               | Green         |   |
| 41. Are unusual variations in revenue investigated by management?   | Yes               | Green         |   |
| 42. Does management investigate all substantial variations from norms such as cash register voids, no sales, refunds, errors, etc.? | Yes               | Green         |   |
| 43. Are all original voided or canceled receipts retained and accounted for in the records?   | Yes               | Green         | They are filed with that day's receipts.  |
| 44. Are all pre-numbered documents that are voided accounted for?   | Yes               | Green         |   |
| 45. Does an independent employee periodically count cash funds on a surprise basis?   | No                | Yellow        | Although management checks all deposits daily, <b>we recommend</b> that they conduct surprise cash counts.<br><br><b>DEA response:</b> We will conduct periodic surprise cash counts.   |
| 46. Does the cash handling area have written departmental cash handling policies and procedures?                                    | Yes               | Green         | The current departmental policies and procedures date from 1995. Animal Control plans to update them.   |
| 47. Do you perform criminal background checks on new cash handling employees?   | No                | Yellow        | DEA has not performed criminal background checks on cash-handling employees.<br><br><b>We recommend</b> that management consider checks on all employees who handle the cash and mail payments.<br><br><b>DEA response:</b> Seattle Animal Control is researching the labor/management issues associated with implementing criminal background checks for any new employees who will be handling cash in their jobs. A collective bargaining unit represents these positions. |
| 48. Are criminal checks made periodically after hire?   | No                | Yellow        | <b>We recommend</b> that management consider spot checks on employees who handle the cash and mail payments after they are hired.<br><br><b>DEA response:</b> There are no current Citywide policies that provide for background checks for most existing employees, including administrative staff. Seattle Animal Control will research this recommendation.  |

| INTERNAL CONTROL<br>OBJECTIVE QUESTION  | OVERALL<br>ANSWER | OCA<br>RATING | COMMENTS  |
|---|-------------------|---------------|---|
| 49. Are all cashiers required to take annual vacations, and have their responsibilities handled by someone else during their absence? | No                | Yellow        | <p>Cashiers are not required to take vacations and when they do, someone else does not assume their job.</p> <p><b>We recommend</b> that management consider having a back-up person fill in for absent cashier employees.</p> <p><b>DEA response:</b> Our cashiers regularly take vacation. DEA encourages all employees to use vacation annually and to take at least one full-week annual leave from work. As staffing allows, management provides back-up persons to fill in for absent cashiers. It is unknown whether DEA can require employees to use vacation, as a collective bargaining unit represents these positions. An employee, who had accrued the maximum amount of vacation and still refused to take leave, thereby causing the accrued vacation to lapse, would immediately fall under suspicion and management would take appropriate action.</p> |

cc: Richard McIver, Chair, City Council Finance, Budget, Business and Labor Committee  
Mel McDonald, Director, Revenue and Consumer Affairs, DEA  
Don Jordan, Manager, Animal Control, DEA  
Robin Klunder, Administrative Staff Assistant, Animal Control, DEA  
Carol Metcalf, Director, Accounting Services, DEA  
Susan Cohen, City Auditor  
Rick Thorson, State Auditor's Office